



ANTONIO R. VILLARAIGOSA
Mayor

Commission
THOMAS S. SAYLES, *President*
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RICHARD F. MOSS
CHRISTINA E. NOONAN
JONATHAN PARFREY
BARBARA E. MOSCHOS, *Secretary*

RONALD O. NICHOLS
General Manager

March 12, 2013

The Honorable City Council
City of Los Angeles
Room 395, City Hall
Los Angeles, California 90012

Honorable Members:

Subject: Authorization to Issue up to \$480 Million of Power System Revenue Bonds
(Resolution No. 4856)

Pursuant to Charter Section 609, enclosed for approval by your Honorable Body is Resolution No. 4856, adopted by the Board of Water and Power Commissioners on March 5, 2013, approved as to form and legality by the City Attorney, which authorizes the issuance of up to a maximum of \$480 Million of Power System Revenue Bonds for the Balance of Capital Improvements for Fiscal Year 2012-2013 under Resolution No. 4856. As directed by the Board, transmitted to you are supporting documents.

If there are any questions regarding this item, please contact Ms. Winifred Yancy, Manager of Intergovernmental Affairs and Community Relations, at (213) 367-0025.

Sincerely,


for Barbara E. Moschos
Board Secretary

BEM:sar

Enclosures: LADWP Resolution
Board Letter
CAO Report
Letter from Public Resources Advisory Group
Chief Financial Officer's Letter

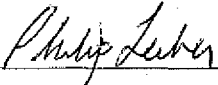
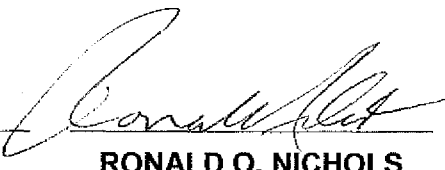
Water and Power Conservation ... a way of life

111 North Hope Street, Los Angeles, California 90012-2607 Mailing address: Box 51111, Los Angeles 90051-5700
Telephone: (213) 367-4211 Cable address: DEWAPOLA



c/enc: Mayor Antonio Villaraigosa
Councilmember Jose Huizar, Chair, Energy and the Environment Committee
Gerry F. Miller, Chief Legislative Analyst
Miguel A. Santana, City Administrative Officer
Rafael Prieto, Legislative Analyst, CLA
William R. Koenig, Chief Administrative Analyst
Winifred Yancy

LOS ANGELES DEPARTMENT OF WATER AND POWER (LADWP) BOARD APPROVAL LETTER

TO: BOARD OF WATER AND POWER COMMISSIONERS		DATE: January 24, 2013
 PHILIP LEIBER Chief Financial Officer		SUBJECT: Authorization to Issue up to \$480 Million of Power System Revenue Bonds for the Balance of Capital Improvements for Fiscal Year 2012-2013 under Resolution No. 4856
 RONALD O. NICHOLS General Manager		
		FOR COMMISSION OFFICE USE: RESOLUTION NO. _____
CITY COUNCIL APPROVAL REQUIRED: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	IF YES, BY WHICH CITY CHARTER SECTION: 609	

PURPOSE

The attached Resolution No. 4856, if adopted, would authorize the issuance of up to a maximum of \$480 million of Power System Revenue Bonds (Bonds), payable out of the Power Revenue Fund. The Bonds will be used to finance a portion of the Power System's capital improvement program for Fiscal Year (FY) 2012-2013. This would be the second of two such offerings that were planned to provide funding for power system capital expenditures.

COST AND DURATION

The total estimated cost for the \$480 million bond issue, including principal and interest, is approximately \$775 million over 20 years based on current interest rates for tax-exempt bonds. The debt issuance costs are estimated at \$2.25 million representing 0.47 percent of the total bond issue which includes underwriter's discount, bond counsel, disclosure counsel, financial advisor, and rating agencies fees.

BACKGROUND

Proposed Resolution No. 4856 is an "initial resolution" of the Board of Water and Power Commissioners (Board), setting forth the purpose of the future indebtedness and establishing the maximum limit as to principal, interest costs, and term. Resolution No. 4856 also provides for the private sale of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to the Procedural Ordinance. The Financial Services Organization (FSO) will present a "supplemental resolution" that will authorize the specific terms and conditions for the Bonds, including the lead underwriters that will be selected from among the

Department's investment banking team members and the principal financing documents related to the Bonds, at a future Board meeting.

The Power System's FY 2012-2013 Budget approved by the Board on May 24, 2012 under Resolution No. 012-248 and transmitted to City Council as required by Charter Section 684, reflects a need to borrow approximately \$1.13 billion of tax-exempt revenue bonds to support its planned capital improvement program over the same period. Resolution No. 4844, adopted by the Board on July 17, 2012 and approved by the City Council on August 28, 2012, initially authorized \$650 million of Revenue Bonds or 57 percent of the financing needs for FY 2012-2013¹. Submitted at this time is proposed Resolution No. 4856 for the remaining \$480 million, representing the remaining financing needs for the current fiscal year. The proceeds from the \$480 million bond issuance will be deposited into the Construction Fund of the Power System and would be drawn down to fund the remaining portion of its capital improvement program for FY 2012-2013. If not spent in full, the remaining funds would be applied toward FY 2013-2014 capital needs.

Both the Department's Chief Financial Officer (CFO) and Financial Advisor, Public Resources Advisory Group (PRAG), recommend the Bonds be sold on a negotiated basis (i.e., private sale). The CFO's Report in connection with the proposed private sale, as required by Charter Section 609, is attached. Also attached is the report setting forth PRAG's opinion with respect to a private sale.

RECOMMENDATION

Mayoral and City Council approvals are required.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's Report is attached.

It is recommended that your Honorable Board adopt Resolution No. 4856.

MCI/JD:gw

Attachments

e-c/att: Ronald O. Nichols
Richard M. Brown
Aram Benyamin
James B. McDaniel

Philip Leiber
Gary Wong
Mario C. Ignacio
Judith G. Daco

¹ Such bonds were issued in October 2012 at a historically low interest cost of 3.76 percent. A full report on the bond issuance will be provided to the Board in a separate report.

**INITIAL RESOLUTION
OF THE BOARD OF WATER AND POWER COMMISSIONERS
OF THE CITY OF LOS ANGELES**

**Authorizing the Borrowing of Up to \$480,000,000 Pursuant to Section 609 of
The Charter of The City of Los Angeles Through the Issuance of
Revenue Bonds Payable from the Power Revenue Fund**

Resolution No. 4856

**BE IT RESOLVED BY THE BOARD OF WATER AND POWER COMMISSIONERS OF
THE CITY OF LOS ANGELES:**

Section 1. This Board of Water and Power Commissioners of the City of Los Angeles (the "Board") hereby determines that the public interest and necessity demand that the Department of Water and Power of the City of Los Angeles (the "Department") should borrow money pursuant to Section 609 of The Charter of The City of Los Angeles (the "Charter") for the purposes specified in Section 3 of this Resolution, and should issue and sell revenue bonds as herein provided (the "Bonds") payable from the Power Revenue Fund to evidence the indebtedness created by such borrowing.

Section 2. The Board hereby authorizes the issuance of the Bonds pursuant to the provisions of Section 609 of the Charter for the purposes specified in Section 3 of this Resolution.

Section 3. The Bonds are to be issued for the purpose of financing one or more Capital Improvements to the Power System (as such terms are defined in Resolution No. 4596 (the "Master Bond Resolution") adopted by the Board on February 6, 2001).

Section 4. The maximum principal amount of the Bonds authorized by this Resolution is

FOUR HUNDRED EIGHTY MILLION DOLLARS (\$480,000,000)

and said Bonds are to be issued in one or more series or subseries at such time or times as the Board may determine.

Section 5. The maximum term for which any Bond is to run shall be forty-five years from the date of issuance of such Bond.

Section 6. The maximum interest cost to be incurred through the issuance of any Bond shall be twelve percent (12%) per annum. The interest cost for the purpose of determining whether such interest cost is within such maximum shall be on the basis of a year of 365 days for the actual number of days elapsed.

Section 7. This Board has received a report (the "Report") of the Chief Financial Officer of the Department stating that such officer has determined that a private sale of the Bonds will be of benefit to, and in the financial interests of, the Department and providing the reasons therefor. As authorized by subsection (d) of Section 609 of the Charter and Section 11.28.4 of Ordinance No. 172,353 of the City of Los Angeles (the "City"), as amended, constituting Article 6.5 of

Chapter 1 of Division 11 of the Los Angeles Administrative Code (the "Procedural Ordinance"), this Board hereby authorizes the private sale of each series and subseries of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to Section 11.28.4(b) of the Procedural Ordinance as such team is composed at the time of the sale of such series or subseries; provided, however, that underwriters' discount (exclusive of initial issue discount) with respect to the Bonds shall not exceed one percent of the principal amount of the Bonds and any initial issue discount with respect to the Bonds shall not exceed ten percent of the principal amount of the Bonds to which such initial issue discount shall apply.

Section 8. As provided in Section 11.28.5 of the Procedural Ordinance, in connection with, or incidental to, the issuance or carrying of the Bonds, the Department may enter into one or more credit enhancement or liquidity agreements (each for purposes of this Resolution and the Master Bond Resolution, a "Credit Support Agreement") with one or more banks, insurance companies or other financial institutions approved by the Board which shall contain such payment, interest rate, security, default, remedy and other terms and conditions as shall be approved by the Board. Notwithstanding Section 6 of this Resolution, the maximum interest cost to be incurred on amounts payable under each such Credit Support Agreement, including the interest rate on Credit Provider Bonds (as defined in the Master Bond Resolution) under such Credit Support Agreement, shall not exceed twenty percent (20%) per annum. The interest cost for the purpose of determining whether such interest cost is within such maximum shall be on the basis of a year of 365 days for the actual number of days elapsed.

Section 9. The authorization of the issuance of the Bonds made by this Resolution is in addition to any and all other authorizations of the issuance of bonds on account of the Power System heretofore made by resolution of this Board.

Section 10. The Secretary of this Board shall forthwith transmit certified copies of this Resolution, together with the Report of the Department's Chief Financial Officer, to the offices of the Mayor, the City Clerk and the City Administrative Officer (previously the Director of the Office of Administrative and Research Services) pursuant to Subsections (a) and (d) of Section 609 of the Charter and Sections 11.28.2 and 11.28.4 of the Procedural Ordinance.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a resolution adopted by the Board of Water and Power Commissioners of the City of Los Angeles at its meeting held MAR 05 2013

Barbara E. Inosehos

Secretary

APPROVED AS TO FORM AND LEGALITY
CARMEN A. TRUTANICH, CITY ATTORNEY

NOV 01 2012
BY *Priscilla E. Castillo*
PRISCILLA E. CASTILLO
DEPUTY CITY ATTORNEY

0220-04523-0003

TRANSMITTAL

TO Ronald O. Nichols, General Manager Department of Water and Power	DATE JAN 16 2013	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

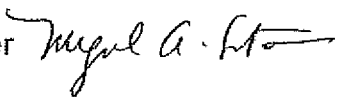
PROPOSED ISSUANCE OF \$480 MILLION OF POWER SYSTEM REVENUE BONDS

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.


MAYOR

MAS:OAV:10130067T

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: January 9, 2013
To: The Mayor
From: Miguel A. Santana, City Administrative Officer 
Reference: Letter from the General Manager, Department of Water and Power, November 7, 2012; referred for report November 15, 2012
Subject: **REQUESTED AUTHORITY TO ISSUE \$480 MILLION IN POWER SYSTEM REVENUE BONDS**

CAO File No. 0220-04523-0003
Council File No. -
Council District: --All

SUMMARY

The Department of Water and Power (DWP) requests approval of the Board of Water and Power Commissioners Resolution No. 4856 (Resolution) which authorizes the issuance of \$480 million in Power System Revenue Bonds, in order to finance a portion of the Power System's capital program during the 2012-13 fiscal year. The Power System's 2012-13 Budget adopted by the Board on May 24, 2012 and transmitted to Council as required by Charter Section 684, includes the need to borrow approximately \$1.13 billion of tax-exempt revenue bonds. The Board adopted and the City Council approved on July 17, 2012 and August 28, 2012 (C.F. 12-1099) respectively, Resolution No. 4844, which authorized the issuance of \$650 million in Power System Revenue Bonds which represents approximately 57% of the financing needs for the current fiscal year. The proposed issuance of the new \$480 million In Power Revenue Bonds represents the remaining financing needs for the fiscal year, which required the approval of the 2012 -13 Incremental Electric Rate Ordinance (C. F. 12 - 1004) before issuing the remaining revenue bonds.

The DWP Power System multi-year capital program focused on an integrated strategy which includes the Power Supply Replacement Program, the Power Reliability Program, and the Customer Opportunities Program. The Department states that the Resolution is an 'initial resolution' of the Board of Water and Power Commissioners (Board), which sets forth the purpose for future indebtedness and establishes the maximum limit as to principal, interest costs, and the term. The Resolution also provides for the private or negotiated sale of the bonds to one or more underwriting firms selected by the Board pursuant to City Charter Section 609 (d) and Los Angeles Administrative Code Section 11.28.4 (the Procedural Ordinance). The bonds will be Power System Revenue Fund obligations and will not constitute an obligation of the City or the General Fund. The City Attorney has approved the proposed Resolution as to form and legality.

BACKGROUND

The DWP Power System Capital Program's strategic priority is to transform its energy resources and power generation, to meet various state and federal mandates; replace aging infrastructure ensuring

a robust and reliable distribution system; and promote customer control of their energy future; while maintaining regionally competitive rates for its customers. Funding for the Fiscal Year 2012-13 Capital Program consists of a number of major components illustrated in the table below.

Power System Capital Improvements Budget	<i>(\$ in millions)</i>	Fiscal Year 2012-13
Power Supply Replacement Program		
<i>Integrated Resource Plan: Rebuilding Local Power Plants (Complete Haynes Units 5 and 6; Begin Scattergood Unit 3; and Castaic Modernization Units 1 and 7)</i>		\$ 428
<i>Renewable Portfolio Standard: Renewable Resources (SB1 Solar Incentive; Utility built solar; Commitments to sites and permitting activities for renewable energy projects; completing the Adelanto and Pine Tree Solar Projects; and Barren Ridge Renewable Transmission)</i>		\$ 150
<i>Energy Conservation</i>		\$ 127
Power Supply Replacement Program		\$ 705
Power Reliability Program		
<i>Power Reliability Program: Invest in distribution system reliability, substation reliability improvements and expansion, substation automation (prioritize replacements to address most critical problems first; focus on repair and equipment replacement on the worst-performing circuits; replace vital equipment, such as poles, transformers, cables, and overhead circuits, integrate use of smart grid technology to detect and address problems)</i>		\$ 427
Power Reliability Program		\$ 427
Infrastructure Reliability Program		
<i>Infrastructure Reliability: Additions and improvements in various generating stations; investments in Automatic Meter Reading; and fleet acquisitions</i>		\$ 195
Infrastructure Reliability Program		\$ 195
Operating Support		
<i>Operating Support and adjustments</i>		\$ 97
<i>Natural Gas Drilling Capital Investments</i>		\$ 20
Operating Support		\$ 117
Total Power System Capital Improvements Budget		\$ 1,444

Capital Program Financing

In order to support an overall planned \$1.444 billion capital improvement program during this period, a combination of borrowings and internally generated funds will be required. The Power System's fiscal year 2012-13 Budget, as adopted by the Board on May 24, 2012 and transmitted to Council as required by Charter Section 684, includes the need to borrow approximately \$1.13 billion of tax-exempt revenue bonds. The Board adopted and the City Council approved Resolution No. 4844 on July 17, 2012 and August 28, 2012, respectively, which authorized the issuance of \$650 million in

Power System Revenue Bonds representing approximately 57% of the financing needs for the current fiscal year. On October 25, 2012, the Department successfully completed this bond transaction. The proposed Resolution authorizes the remaining \$480 million of Revenue Bonds or 43% of the financing needed for the current fiscal year as outlined in the budget. The maximum interest cost to be incurred through the issuance of the bonds is twelve percent per annum; the maximum term for any bond to run is 45 years from the date of issuance. Based on the current market conditions, the interest cost is expected to be in the range of 4.0% – 5.0%.

DWP plans to issue the bonds when the market has favorable rates and is planning for either a January/February or February/March timeframe because the new funds will be required by March or April 2013. The projected drawdown schedule for the revenue bonds for fiscal year 2012 – 13, which includes the additional proposed \$480 million requested, is detailed in the chart below:

Date	Description	Amount	Balance
Oct-12	Construction Fund	733.3	733.3
Oct-12	Reimbursed Power Revenue Fund	(334.7)	398.6
Jan-13	Capital Expenditures Incurred through Oct-12	(123.1)	275.5
Feb-13	Estimated Capital Expenditures through Dec-12	(160.0)	115.5
Mar-13	Estimated Capital Expenditures for Jan-13	(85.0)	30.5
Mar-13	New Bond Proceeds	480.0	510.5
Apr-13	Estimated Capital Expenditures for Feb-13	(85.0)	425.5
May-13	Estimated Capital Expenditures for Mar-13	(85.0)	340.5
Jun-13	Estimated Capital Expenditures for Apr-13	(85.0)	255.5
Jul-13	Estimated Capital Expenditures for May-13	(85.0)	170.5
Aug-13	Estimated Capital Expenditures for June-13	(85.0)	85.5
Sep-13	Estimated Capital Expenditures for Jul-13	(85.5)	0.0

Debt Service Coverage

The chart below illustrates the Power System's debt service coverage, Net Available Revenue Coverage and Net Operating Cash flow Coverage over the last decade. The net operating cash flow coverage has declined, from a ratio of four times the coverage in 2002 to coverage ratio of barely two times in 2011. The Power System continued to maintain a minimum Debt Service Coverage Ratio (Net Available Revenue Coverage) of 2.4. These changes are consistent with the Board action taken on May 21, 2009 as amended on September 12, 2012, directing the DWP to generally use the following financial planning criteria: 1) maintain a minimum debt service coverage of 2.25 times; 2) maintain a minimum operating cash target of \$300 million; and 3) maintain a capitalization ratio of less than 68 percent.

The typical residential customer bill (usage of 500kWh/month) prior to the 11/11/2012 rate increase was \$65.79. Over two years, that typical residential customer will see their bill increase by \$3.65 or 5.5%. Of that \$3.65 increase, 68 cents (or 18.6% of the increase) can be attributed to this \$480 million bond offering.

**Pledged- Revenue Coverage
Last Ten Fiscal Years
(Dollar amounts expressed in thousands)**

Fiscal Year	Operating Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service (3)	Net Available Revenue Coverage	Net Operating Cash Flow	Net Operating Cash Flow Coverage (4)
2002	2,457,375	1,568,032	889,343	189,338	4.7	784,933	4.1
2003	2,318,167	1,655,240	662,927	168,119	3.9	792,585	4.7
2004	2,437,461	1,771,230	666,231	170,466	3.9	505,187	3.0
2005	2,401,458	1,835,594	565,864	189,105	3.0	611,579	3.2
2006	2,665,535	2,016,080	649,455	223,678	2.9	559,157	2.5
2007	2,799,140	1,996,649	802,491	267,144	3.0	507,934	1.9
2008	2,989,725	2,176,056	813,669	250,484	3.2	469,188	1.9
2009	2,924,155	2,043,192	880,963	270,357	3.3	427,647	1.6
2010	3,387,361	2,287,434	1,099,927	309,349	3.6	741,881	2.4
2011	3,288,476	2,308,188	980,288	400,846	2.4	666,711	1.7

(1) Operating revenues include capital contributions, net non-operating revenues and allowance for funds used during construction.
 (2) Operating expenses do not include depreciation and amortization expenses.
 (3) Debt service includes principal and interest payments on bonds and commercial paper notes.
 (4) Net operating cash flow coverage is presented to show the Funds' ability to generate sufficient cash flow to cover debt service costs.

Source: Office of the Controller, City of Los Angeles, FY 2011 Comprehensive Annual Financial Report; February 2012.

In addition, the 2011 edition of the *U.S. Public Power Peer Study* published by Fitch Ratings, the financial performance of the DWP, compared to other utilities in the same AA- senior debt rating category, is slightly below the median of these utilities. The *Study* is based on several Financial Ratios that measure operating cash coverage; liquidity; and debt burden.

In developing a method of financing the Capital Program, DWP has requested authority to conduct private, negotiated sales of bonds to one or more investment banking firms. Listed below are the firms selected by the Board to serve as the Department's underwriting team, pursuant to the Procedural Ordinance. The Department will select from the team of underwriters for each individual bond issuance.

Department of Water and Power Selected Underwriting Team	
• Bank of America Merrill Lynch	• BMO Capital Markets Inc.
• Barclays Capital Inc.	• Cabrera Capital Markets, LLC
• De La Rosa & Co.	• Citigroup Global Markets Inc.
• Goldman Sachs & Co.	• Fidelity Capital Markets
• JP Morgan Securities LLC	• Loop Capital Markets, LLC
• Morgan Stanley & Co., LLC	• Mitsubishi UFJ Securities (USA) Inc.
• RBC Capital Markets, LLC	• Ramirez & Co., Inc.
• Siebert Branford Shank & Co., LLC	• The Williams Capital Group, L.P.
• Wells Fargo Securities	• U.S. Bancorp

Charter Section 609 Compliance

Section 609 of the City Charter requires that the Council and Mayor approve issuance of debt for the proprietary departments. Section 609 (d) allows the private sale of bonds subject to the following conditions:

- The Board has authorized the sale of bonds pursuant to private sale after written recommendation of the Chief Financial Officer stating the reasons why a private sale will benefit the Department;
- The Council, after receiving a report from the City Administrative Officer, has approved the sale; and
- The Council be provided an opportunity, as set forth in the Procedural Ordinance, to disapprove the selection by a department of the underwriting firm(s) for the private sale of bonds

Pursuant to the Procedural Ordinance, the recommendations for private bond sale (Attachments) have been made by both the DWP's CFO and by its financial advisor, the Public Resources Advisory Group (PRAG).

Debt Issuance Costs

Debt issuance costs are estimated by the DWP at approximately \$2.25 million for the total \$480 million new bond issuance. A detail of the services provided and the estimated debt issuance costs are included in the chart below.

Debt Issuance Costs \$480 million Power System Revenue Bonds	
<i>Service</i>	<i>Estimated Cost</i>
Rating Agencies	\$ 300,000
Financial Advisor	57,000
Bond Counsel	155,000
Disclosure Counsel	50,000
Underwriter's Discount	1,680,000
Printing of Official Statements	8,000
TOTAL	\$ 2,250,000
<i>Source: Department of Water & Power - Financial Services Organization</i>	

Competitive v. Negotiated Bond Sale

The advantages and disadvantages of a competitive versus negotiated bond sale can be debated on their own individual merits. Although competitive sales are conducted through an open process and most often result in the lowest cost of borrowing to the City. However, with respect to this issuance, a negotiated sale may be more advantageous to the DWP. A negotiated sale would allow for additional explanation of the transformation of the generation resource portfolio into more renewable energy and transition away from coal, replacing and upgrading aging infrastructure to improve power reliability efforts in order to develop sufficient market interest as well as to explain why the bonds are a solid investment. In addition, due to the size of the proposed issuance, a negotiated sale, will allow DWP to provide meaningful roles for local and regional firms; will provide meaningful participation of retail investors who are less sensitive to price compared to institutional investors, will allow DWP to structure specialized bonds to meet specific needs of investors, and will provide flexibility in timing the pricing of the bonds to attempt to avoid the recent high volatility in the public capital markets.

Indebtedness

As of October 31, 2012, the Power System reported approximately \$6.81 billion in long-term debt obligations and \$200 million in its commercial paper program. Long-term debt obligations consist of approximately \$969 million of variable rate debt and \$5.84 billion of fixed rate revenue bonds. All debt service payments are payable from the Power Revenue Fund. The following table identifies recent Power System long-term debt activity.

<i>Fiscal Year</i>	<i>(\$ in millions) Issuance</i>	<i>Rate</i>	<i>Purpose</i>	<i>Type of Sale</i>
2013	\$650.00 <i>Tax-exempt</i>	Fixed	Capital Improvements	Negotiated
2013	\$104.08 <i>Tax-exempt</i>	Fixed	Refunding Bonds	Negotiated
2011	\$694.10 <i>Tax-exempt</i>	Fixed	Refunding Bonds	Negotiated
2010	\$760.20 <i>BABs</i>	Fixed	Capital Improvements	Negotiated
2010	\$139.80 <i>CREBs/QECB</i>	Fixed	Capital Improvements	Negotiated
2010	\$52.10 <i>Tax-exempt</i>	Fixed	Refunding Bonds	Negotiated
	\$616.00 <i>BABs</i>	Fixed	Capital Improvements	Negotiated

RECOMMENDATION

That the Mayor approve the Board of Water and Power Commissioners' Resolution No. 4856 authorizing the Department of Water and Power to issue, through private sales, a maximum of \$480 million in Power System Revenue Bonds in accordance with the provisions of Charter Section 609 and Article 6.5 of the Los Angeles Administrative Code Sections 11.28.1 – 11.28.9; and return the Resolution to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

The proposed bond sale will have no direct impact on the City's General Fund. Approval of the recommended action will authorize the DWP to issue \$480 million of Power System Revenue Bonds to finance a portion of its capital improvements program for fiscal year 2012-13. DWP estimates the impact of the \$480 million Power Revenue Bond issuance, including principal and interest, will be to increase debt service costs of the Power System Revenue Fund by approximately \$775 million over 20 years or approximately an average of \$40 million annually. This amount is based on the current interest rates for tax-exempt bonds. One-time costs of issuance from the Power System Revenue Fund are estimated at approximately \$2.25 million. One-time costs consist of underwriter's discount; bond and disclosure counsels, financial advisor; and ratings agencies fees.

MAS:OAV:10130067



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LOS ANGELES, CALIFORNIA 90064
TEL: (310) 477-8487 | FAX: (310) 477-0105
WWW.PRAGADVISORS.COM

PUBLIC RESOURCES ADVISORY GROUP

November 5, 2012

Mr. Philip Leiber
Chief Financial Officer
Department of Water and Power of the City of Los Angeles
111 North Hope Street
Los Angeles, CA 90012

Dear Mr. Leiber:

The Department of Water and Power of the City of Los Angeles ("LADWP") has requested that Public Resources Advisory Group ("PRAG"), as financial advisor to LADWP, discuss the merits of negotiated bond transactions for the issuance of debt to fund the capital improvement program of the Power System. LADWP currently anticipates issuing an additional \$480,000,000 of Power System Revenue Bonds for the balance of fiscal year 2012-13.

The benefits of negotiated versus competitive sales have been analyzed by municipal market participants for many years. The debate will continue into the future due to the rare frequency (or possible absence) of simultaneous negotiated and competitive bond pricings for the same issuer, same credit, and same maturities. In general, PRAG believes that all things being equal a competitive sale will provide an issuer with the lowest cost of funds for the majority issuances, but not necessarily in all cases. There are other important factors and market circumstances that have an impact on the decision for issuers to negotiate bond sales. The following are some of the factors that LADWP faces with its upcoming new money Power System Revenue Bonds that support the decision of issuing on a negotiated basis:

- A negotiated sale will allow for LADWP to provide meaningful roles for local and regional firms;
- Negotiated sales may allow LADWP to structure specific portions of the issuance to meet investor demand (such as, bifurcated coupons, callable premium bonds, non-callable bonds, specified par amounts, non-traditional couponing and similar features); and
- Negotiated bond sales' increased flexibility in timing and structuring allows LADWP to attempt to navigate through difficult market conditions;
 - For example, as a result of significant and rapid shifts in the supply and demand relationships for municipal bonds, there has recently been high volatility in the public capital markets, including narrowing and widening credit spreads;
 - Negotiated issuers have been able to respond to then current market conditions by modifying the timing and structure of their bonds to better meet investor demands.

In our opinion, the factors above should be considered by LADWP when making the decision to issue Power System Revenue Bonds on a negotiated sale basis. I hope the foregoing meets your needs. Please call me at 310-477-1453 or William Cobbs at 212-566-7800 if you have any questions on this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Edmund Soong'.

Edmund Soong
Executive Vice President



ANTONIO R. VILLARAIGOSA
Mayor

Commission
THOMAS S. SAYLES, *President*
ERIC HOLOMAN, *Vice President*
RICHARD F. MOSS
CHRISTINA E. NOONAN
JONATHAN PARFREY
BARBARA E. MOSCHOS, *Secretary*

RONALD O. NICHOLS
General Manager


CHIEF FINANCIAL OFFICER'S REPORT

Private Sale of Los Angeles Department of Water and Power, Power System Revenue Bonds

This report is being delivered in connection with the proposed private sale of Los Angeles Department of Water and Power, Power System Revenue Bonds (Bonds), pursuant to Charter Section 609.

The Power System's budget for Fiscal Year 2012-13 approved by the Board of Water and Power Commissioners (Board) on May 24, 2012 and transmitted to City Council pursuant to Charter Section 684, indicates a need to borrow approximately \$1.13 billion of tax-exempt revenue bonds to support its planned capital improvement program over the same period. Resolution No. 4844 approved by the Board on July 17, 2012, authorized only \$650 million of Revenue Bonds or 57% of the financing needs for FY 2012-13. The Department is submitting an Initial Resolution for the remaining \$480 million since the rate increase as outlined in the budget has been approved. Also, the current interest rate environment provides the Power System with an opportunity to lower its effective interest cost by issuing bonds to finance the remaining FY 2012-13 capital improvement funding requirement at historically favorable interest rates.

Due to the size of the proposed bond issue, efforts to provide a meaningful opportunity for minority, women and other business enterprises to participate in the sale of the Bonds consistent with the goals set forth in the Department's Outreach Program, the desire to coordinate the timing of what continues to be a volatile interest rate environment, and the desire to implement a retail order period aimed at reducing borrowing costs, I have determined that a private sale of the Bonds would be of benefit to the Department and recommend the private sale of the Bonds as provided in the attached Resolution No. 4856.



PHILIP LEIBER
Chief Financial Officer
November 5, 2012

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